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**SCOTTSDALE CITY COUNCIL**

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Councilwoman Mary Manross  
Councilman Robert Pettycrew  
Councilman Donald Prior  
Councilman Richard Thomas

**ACCOUNTS PAYABLE  
CONTROL REVIEW**

The City's Accounts Payable process achieves its basic purpose of preparing accurate vendor payments. However, the payment process can be streamlined to maximize efficiency and further reduce the possibility of errors.

**Report No. 9203  
June 1995**

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# ACCOUNTS PAYABLE CONTROL REVIEW ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X		Due 7/1/96		<p>The General Manager, Financial Services, should:</p> <p>Assess the feasibility of using a single financial software system for processing purchase orders, invoices, and other related documents, to improve the efficiency and accuracy of the process.</p> <p>Assess the feasibility of combining all invoice processing responsibilities into a single division within Financial Services to maximize the efficient use of staff resources, to expedite invoice processing, and to enhance internal controls.</p> <p>Ensure that formal guidance is developed to establish the agreed-upon best method for staff at the program level to track check requisitions in order to minimize the risk of duplicate payment requests being forwarded for processing.</p>
2	X		Due 7/1/96		
3	X		Due 7/1/96		

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# EXECUTIVE SUMMARY

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Accounts Payable Control Review  
City Auditor Report No. 9203

June 16, 1995

To The Most Honorable Herbert R. Drinkwater, Mayor  
and the Members of the Scottsdale City Council:

This report transmits the results of our audit of the City's Accounts Payable process. The audit focused on the adequacy of internal controls within the process and on any potential for improving those controls and/or the overall efficiency and effectiveness of the process. City management already has initiated review of actions that may improve process efficiency.

Overall, we found that the accounts payable process, as currently structured, achieves its basic purpose of preparing accurate vendor payments. Review of a sample of payment transactions indicated that applicable taxes were properly accrued and discounts were taken when available for the transactions. Additionally, transactions were found to be appropriately authorized by signature approvals. We found that accounts payable staff processed invoices and check requisitions in compliance with established policies and procedures, and that automated edit checks were used to detect potential duplicate payments.

We did, however, identify opportunities to streamline the payment process, and as a result, maximize efficiency and reduce the possibility of errors. Currently, two separate automated systems, which are not directly interfaced to one another, are used in processing purchase order related invoices. Additionally, physical processing of these invoices is divided between two separate departments within the City. Division of these responsibilities has negatively impacted the efficiency of the process, resulting in duplication of staff effort, requiring otherwise unnecessary reconciling procedures and, at times, slowing the payment process.

We believe that use of a fully interfaced/integrated financial software system, in the processing of purchase order related invoices, would resolve inefficiencies associated with the current dual systems. Efficiency can also be improved by consolidating invoice processing responsibilities into a single division within Financial Services.

The Assistant City Manager, the General Manager of Financial Services, the Purchasing Director and the Accounting and Budgeting Director reviewed this report and submitted written responses which can be found in Appendix B. The Action Plan which follows this letter sets out management's level of concurrence with each recommendation and an implementation timetable.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117, *et seq.*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the standards' three year peer review cycle requirement.

Respectfully submitted,



Cheryl L. Barcala, CIA/CPA/CFE  
City Auditor

Gail Crawford, CPS

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# CHAPTER ONE

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Accounts Payable Control Review  
City Auditor Report No. 9203

## **Focus Of The Review**

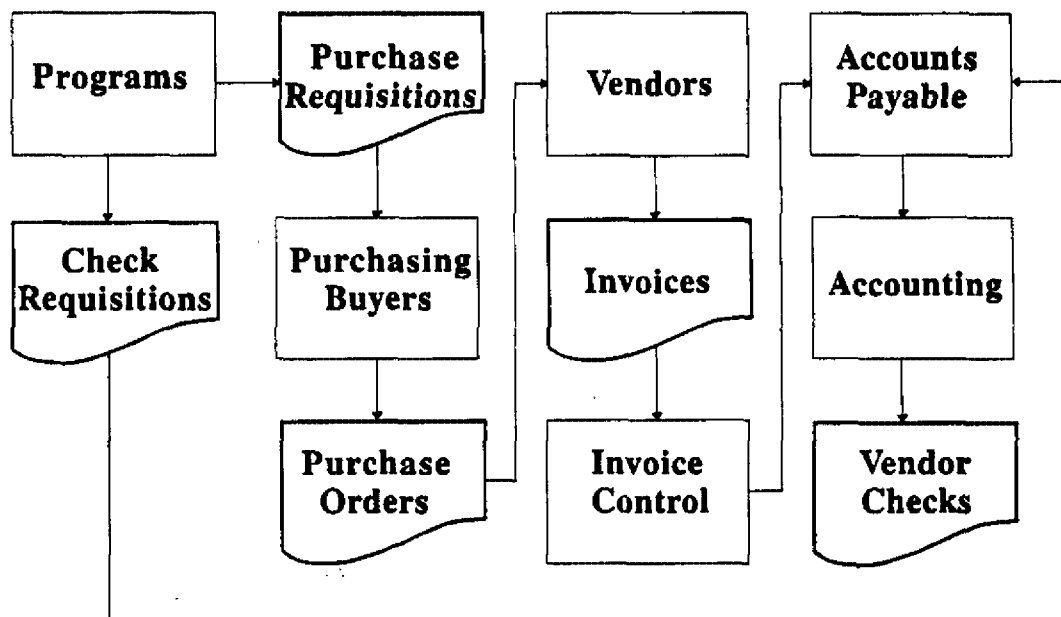
Our objective was to identify and assess the adequacy of established internal controls within the accounts payable process. This assessment was made to ensure City assets are properly safeguarded. We also evaluated the potential for enhancing the efficiency and effectiveness of the accounts payable process. Additionally, we performed audit work to determine whether the City has made any duplicate payments to a vendor for the same goods or services.

## **Background**

For purposes of this audit, the City's accounts payable process consists of receipt of a vendor invoice or a check requisition soliciting payment for goods or services provided to the City, verification of appropriate authorization and accompanying documentation for the purchase, verification that the goods or services for which payment is requested have in fact been received by the City, verification of vendor information, entry of payment amounts into the City's financial system and generation of a check to make payment to the vendor.

This chapter discusses invoices associated with purchase orders, which begin the accounts payable process upon receipt in Purchasing's Invoice Control section. These payables take a different route than check requisitions and their corresponding invoices which do not flow through Purchasing but instead are forwarded directly to Accounts Payable from the program levels throughout the City. Chapter Two discusses the adequacy of controls relative to check requisitions. See Exhibit I, on the next page, for an overview of the payment process.

**EXHIBIT I**  
**Purchase Order/Invoice And Check Requisition Payment Process**



**SOURCE:** Audit analysis.

## **Programs**

- Identify need for goods or services.
- Generate purchase requisitions on the Scottsdale PO Tracking System (SPOTS).
- Generate check requisitions when applicable (see Chapter 2 this report).

### **Purchasing Buyers**

- Review SPOTS for purchase requisitions.
- Place orders with vendors.
- Generate POs on SPOTS.

## Vendors

- Provide goods or services.
- Submit invoices for payment.

## Invoice Control

- Receives vendor invoices.
- Verifies invoices are appropriate for payment.
- Enters invoice information into SPOTS and matches to POs.
- Attaches final or partial pay documents to invoices and sends them to Accounts Payable.

### Accounts Payable

- **Receives invoices and pay documents from Invoice Control.**
- **Receives check requisitions from Programs.**
- **Identifies correct vendor number for each invoice.**
- **Reviews for appropriate signature authority on check requisitions.**
- **Verifies taxes, discounts, account numbers, addresses and PO amounts.**
- **Enters invoice information into the City's automated financial system.**

## Accounting

- Reviews all batched invoices to verify totals.
- Verifies and corrects all information entering the General Ledger.
- Prepares vendor checks for distribution.

Regardless of how the invoice is forwarded for payment within the City, Accounts Payable is responsible for entering the information into the City's financial system for ultimate payment. Processing volumes for Accounts Payable over the past five fiscal years are shown below. (See Insert.)

Accounts Payable Workload		
Fiscal Year	Transactions Volume	Dollar Volume
1989-90	61,553	\$128,315,843
1990-91	65,936	\$147,554,401
1991-92	69,526	\$171,025,984
1992-93	81,032	\$181,140,177
1993-94	90,934	\$167,506,310

SOURCE: Accounts payable transaction database.

Currently, Purchasing's Invoice Control section is the City's receiving point for invoices associated with a purchase order. Programs (City departments) use SPOTS to create a purchase requisition once they identify the need for goods or services. These purchase requisitions are received in Purchasing where they are assigned to a Buyer who researches the requested goods or services and places an order. Purchase order (PO) information is then entered into SPOTS for tracking, receiving and invoice posting purposes.

Ordered goods are received by either the Warehouse or directly by the program. If received by the Warehouse, staff enter receiving data into SPOTS. If the goods are received by the program, program staff forward receiving documents and/or invoices to Invoice Control where the receiving data is entered into SPOTS.

The Invoice Control section is responsible for verifying that vendor invoices related to POs are appropriate to be processed for payment. Once the vendor's invoice is received in Invoice Control, SPOTS is reviewed to determine whether the goods have been received. Sometimes it is necessary for Invoice Control staff to follow-up with program or warehouse staff to make this determination. Additionally, the determination is made as to whether the related PO should be closed because all goods have been received, or whether to initiate a partial payment and leave the PO open, because the remaining goods are yet to come.



In the case of services purchased by the City, Invoice Control reviews the vendor invoice to verify that payment has been approved by the applicable contract administrator. If the services are complete, the invoice is forwarded for final payment and closeout of the PO. If services are still to be provided, a partial payment transaction will be initiated so that the PO will remain open for payment of future services to be provided.

Once Invoice Control is satisfied that payment is justified, staff forward the invoice along with a partial payment form or the PO (in the case of a final payment and PO closeout) to the Accounting Division for payment processing. Invoice Control closes the PO on SPOTS (if appropriate) when they enter the invoice information into the system.

Responsibility for City accounts payable disbursements resides within the Accounting Division of the Financial Services Department. The Accounts Payable (AP) section of the Accounting Division processes invoices for payment. PO related invoices are received from Invoice Control on a daily basis. Accounts Payable uses the Management Science America (MSA) financial system (a separate system from SPOTS) to process the invoices. Invoice processing starts with review of the MSA vendor file and assignment of vendor numbers to the invoices. Vendor addresses are verified, invoice and PO totals are checked, taxes are accrued, discounts applied and appropriate account application is checked before the invoices are batched, totaled and keyed into MSA for vendor payment.

## **Opportunity Exists To Improve The Effectiveness And Efficiency Of The Payment Process**

Overall, audit work performed during this review indicated that payments are accurately processed. We gained a basis for this determination by reviewing sample transactions (See Appendix A for sampling methodology). We found no evidence that duplicate payments were made to the same vendor for the same goods and/or services. Automated edits in the accounts payable process appeared effective in identifying duplicate invoice numbers submitted for the same vendor. All transactions reviewed were found to be appropriate. Taxes were properly accrued, discounts were taken when offered, appropriate signatures were present on the documentation and payments appeared to have been made on a timely basis.

However, we found that opportunities exist to streamline the overall process and as a result maximize efficiency and reduce the possibility of errors. The use of two separate systems (SPOTS and MSA) in the payment process, as well as the separation of invoice processing responsibilities between the Invoice Control and Accounts Payable divisions has negatively impacted the efficiency of the process. Additional steps are required by City staff to reconcile differences between the two systems because they are not directly interfaced. These steps would not be necessary with the use of a fully integrated financial system. Moreover, duplication of staff effort currently exists because of the separate systems and the division of payment processing responsibilities.

Within the past year, the City's Financial Services Department was informed that the vendor providing support maintenance for MSA would no longer provide those services. As a result, the decision was made to purchase a new software system that could take the place of MSA. Ultimately, the Dunn & Bradstreet Software (DBS) system was purchased to accommodate the needs of the Accounting Division. However, DBS is a comprehensive financial software package that includes a purchasing module which (unlike SPOTS) is fully integrated with its accounts payable module. While we have not performed a comprehensive system evaluation of DBS, our initial analysis indicates that use of the DBS purchasing module, in place of SPOTS, has the potential to eliminate the problems caused by the current lack of an integrated system. At the same time, indications are that DBS use should continue to provide the type of PO tracking information that is the appealing aspect of SPOTS. Moreover, once DBS is implemented, continued use of SPOTS would most likely require significant maintenance and programming efforts in order to interface the two systems. Although not completed at the close of fieldwork, evaluation of the DBS system should be followed through by management.

This report was written with the basic understanding that Financial Services would make full use of the DBS system (including the purchasing module). Many of our audit findings relate to inefficiencies that exist because of the current use of the two separate systems which are not directly interfaced. We therefore do not believe it would benefit the City to make recommendations to address these findings since implementation of the new system would either eliminate or alter the applicable processes.

**A Fully Integrated Financial  
System Should Improve  
Process Efficiency**

The implementation of SPOTS has been a useful tool in familiarizing City personnel with the benefits associated with using automated means for initiating and tracking POs. Because SPOTS has broken ground in getting City staff accustomed to using these automated means, future conversion to any new PO system should be easier. However, because SPOTS is not fully integrated with MSA, additional effort is currently required on the part of City staff to reconcile discrepancies between the two systems as well as to maintain the separate systems.

SPOTS feeds PO information to MSA via a nightly program run. The information is received in MSA's Budgetary Control module where an encumbrance for the PO is established for the anticipated expenditure. However, due to timing differences (because SPOTS and MSA are two separate systems with no true interface) and because changes made to POs on SPOTS are not always posted to MSA, PO information within the two systems does not always match. Differences that exist between the two systems can cause unnecessary work for City staff responsible for payment processing. The differences can also cause confusion and lack of confidence in system information on the part of City personnel trying to track the status of requested purchases.

**Dual Systems Can Confuse  
Staff, Lead To Errors**

City staff at the program levels have the ability to access both SPOTS and MSA to either determine the status of their requested purchase and/or determine the amount paid for the goods or services they ordered. This information indicates the amount that will be charged against their respective program budgets. However, we found indications that, because the information on SPOTS and MSA sometimes conflicts, City staff accessing that information can become confused or misled. Moreover, obtaining a full picture of the status of a PO can require that both SPOTS and MSA are accessed, sometimes switching back and forth between each system. As a practical matter, logging in and out of the systems can be burdensome and possibly discourage proper transaction research. Researching one system without the other can lead to incorrect conclusions regarding PO status or remaining program funds.

Although SPOTS was designed to provide PO tracking information to the requestor, we found indications that City staff maintain their own manual PO tracking logs because of low confidence in information provided by SPOTS and MSA collectively. Use of a

single financial software system would eliminate the possibility of conflicting dollar information on the same PO. Restored confidence in system information should eliminate the need for City staff to maintain their manual tracking logs, thus freeing time up for them to address other responsibilities. Additionally, a single system could enhance the ability of the program to review funds available to them without concern for the current updating delays.

**Dual Systems Increase  
Maintenance Effort**

Use of two separate software systems requires separate maintenance of the systems. MSA is a vendor-maintained system while SPOTS, because much of it was custom tailored in-house, is maintained by City staff. Aside from other efficiencies that can be achieved with the use of a single integrated software system (discussed below), a single maintenance function for that system should achieve further efficiencies.

In addition, different vendor files are maintained for SPOTS and for MSA. Although Purchasing and Accounting require different address information for ordering and paying the same vendor, the maintenance of two separate vendor files is a duplication of effort currently required because of the existence of the two separate systems. Purchasing relies on SPOTS for its vendor information while Accounting relies on the vendor file maintained on MSA. Existence of the two separate files also requires additional manual research of vendor information on the part of Accounts Payable in the processing of payments. Although Purchasing may have already provided vendor information on PO and invoice documents, AP clerks must manually review the documentation and match the vendor to MSA's vendor records so that the correct vendor number can be used for payment. Use of a single integrated software system could provide the ability to use a single vendor file with the appropriate automated cross-referencing needed for tying a vendor's ordering and payment addresses to each other.

Invoice Control, at times, will send an invoice to Accounts Payable with instructions for immediate payment. Payment of the invoice can, at times, be processed before SPOTS information can be accessed to update MSA with the related PO information. In these instances, the payment is processed as a direct payment (i.e. without referencing the related PO). In normal circumstances, as a payment is processed the related PO encumbrance is identified within MSA and the appropriate amount of the encumbrance is relieved (i.e. written down

by the amount of the payment). However, at the time a direct payment is processed there is no PO encumbrance to match against. After the direct payment has been processed, a program is run to update MSA with the related SPOTS PO information, but because payment has already been made on the invoice, the applicable PO encumbrance that was established with the update of SPOTS information is not relieved. These encumbrances reside in MSA's Budgetary Control module until they are manually purged by Accounting Technicians on a quarterly basis. This purge would not be necessary if a single, integrated software system were in use. In that case, the update of PO information would be instantaneous and therefore available for matching against the related invoice.

**Risks For Duplicate Payments  
And Non-Productive  
Work Exist**

All PO related invoices that come into the City are directed to Purchasing's Invoice Control for processing. One of the first steps for Invoice Control is to determine whether the invoice is appropriate to pay. This determination involves verification, either through documentation or through program confirmation, that the goods or services have been received. Part of the verification also involves determining whether the invoice has already been received and forwarded for payment processing. To make this determination appropriately, MSA information should be reviewed. MSA is the City's system of record regarding financial information. Therefore, if an invoice has been entered into MSA, the determination can be made (by accessing MSA) that the invoice either has already been paid or is in the process of being paid. However, MSA is not updated with invoice information until the invoice is mailed from Invoice Control to Accounts Payable where the data is keyed into the system.

The delay before Accounts Payable receives the invoice for payment processing can be over a week. During that time, the vendor could possibly send a follow-up invoice, statement or bill of lading that is received in Invoice Control. Even though the previous invoice is being processed for payment within Accounts Payable, Invoice Control's research of MSA would provide no indication that this is the case (the invoice would not yet have been entered into MSA). The Purchasing Director noted that Invoice Control personnel would get an indication that they had already processed the invoice by researching SPOTS. However, this provides no assurance that Accounts Payable has received the invoice and has initiated payment processing on it. During our review we found instances where

invoices were forwarded, by Invoice Control to Accounts Payable, for payment processing even though a previous invoice for the same goods and/or services had been submitted for payment processing. In such situations the result, at best, would be duplicate and unnecessary manual processing of the second/follow-up invoice before MSA's edit check would identify a duplicate invoice number submitted for payment for that particular vendor. In a worst case scenario, duplicate payment could be made on the invoice, statement or bill of lading in a situation where the vendor does not use the same invoice number as on the previous invoice.

The potential for this situation exists for a couple of reasons. The first is that the invoice is not subject to the immediate control of the City's Accounting Department when it first enters the City. If it were, the invoice could be entered into MSA without delay so that any subsequent duplicate invoices submitted for payment could be immediately identified without wasting processing time. Although Invoice Control currently keys the invoices into SPOTS, SPOTS is not the system of financial record for the City. As a result, the presence of invoice information on SPOTS does not assure that the invoice is in the process of being paid within Accounts Payable. Such an assurance can only be gained by verifying that the invoice information has been entered into MSA.

An additional reason the situation exists is because of the existence of the two separate systems. Although invoice information is entered into SPOTS, SPOTS does not directly interface with MSA to provide that information. Instead, the invoices have to be manually keyed into MSA as they were into SPOTS. The result is an exact duplication of the labor intensive data entry invoices, (i.e. Invoice Control staff manually key invoice information into SPOTS before they send the invoices to Accounts Payable where their staff manually key the invoice information into MSA). This considerable duplication of effort would not occur if use was made of a single software system that was designed to interface with and instantaneously update its various components.

## **Combining Payment Processing Responsibilities Can Increase Efficiency**

Currently, responsibility for processing invoices for payment is split between Purchasing's Invoice Control and Accounting's Accounts Payable. Invoice Control is responsible for determining whether an invoice received is appropriate to pay. This includes assigning the correct PO numbers, verifying proof of delivery and verifying signature authority if necessary. Invoice information is keyed into SPOTS and the hardcopy is manually matched to related PO documents. Hardcopies of the invoice and the related PO are mailed to Accounts Payable for further processing.

Accounts Payable receives invoices approved for payment, batches them according to PO or direct payments. They then review the invoice for correct vendor information and verify that invoice amounts are within PO amounts encumbered on MSA. Applicable tax and discount computations are made and account number information is verified before the invoices are keyed into MSA budgetary control for eventual payment.

We believe that assigning all payment processing responsibilities to a single function would benefit the overall efficiency of the process. Invoice processing time and paper generation could be reduced with the elimination of the physical mailing of invoices and POs from Invoice Control to Accounts Payable. Invoices could be mailed directly from the vendor to AP. Entering invoice information into a single integrated system could permit automated matching to the related PO and receiving data. This automated matching would eliminate the current labor intensive matching performed within Invoice Control. Moreover, conversion to a single integrated system could eliminate other invoice processing responsibilities of Invoice Control personnel. Much of their activity is based on maintaining SPOTS information. The installation of a purchasing module which is integrated with financial modules would allow for the eventual deactivation of SPOTS.

During periods of peak workload activity, personnel involved in invoice processing are not used efficiently because they are divided between Invoice Control and Accounts Payable. Invoice Control is the first to experience peak workloads. During the initial stages of such peaks, personnel in Accounts Payable may be available to assist in processing the invoices, but they do not become involved in the process until the invoices are sent to them from Invoice Control. Similarly, Invoice Control personnel may be available to assist Accounts Payable in the second phase of the process but, because

they have completed their portion of the invoice processing and the documents have left their area, they do not get involved with this stage of the process. Assignment of all invoice processing responsibilities to a single division (Accounts Payable) would allow the opportunity to cross-train staff so that they can all assist in relieving workload backups, which should result in a more even flow of work. We believe this would be a more efficient use of staff.

Additionally, assigning all invoice processing duties to Accounts Payable would properly segregate the buying function from the paying function. Such a segregation would conform to standard internal control requirements as well as fix clearer lines of accountability regarding potential problems.



# **CHAPTER TWO**

Accounts Payable Control Review  
City Auditor Report No. 9203

## **Check Requisitions Are Used Appropriately And Are Properly Processed**

Check requisitions are requests for payment of services. They originate at various areas within the City and are submitted directly to Accounts Payable for processing. The check requisition process is provided for those cases where the Procurement Code is not applicable to the transaction or where the Purchasing Director has determined that Purchasing involvement in the payment process is not efficient for the City.

In contrast to purchase requisitions which request that Purchasing order goods or services for the requestor, check requisitions are for services contracted for directly by the requestor. Check requisitions are appropriate in instances where the expenditure is among those specifically listed as valid for check requisition usage. (See Insert.)

### **SUMMARY OF EXPENDITURES FOR WHICH A CHECK REQUISITION IS APPLICABLE**

Advance/Reimbursement For Travel  
Advertising  
Attorney Fees  
CDBG Claims  
City Credit Card Monthly Charges  
City Incurred Utility Bills  
Conferences  
Corporate Wellness  
Court And Utility Refunds  
Debt Service  
Direct Purchase of Fuel By Police Department  
Express Mail/Courier Service  
Financial Consultants  
Inspection Services Refunds  
Insurance Expenditures By Risk Management  
Intergovernmental  
Payments For Use Of Landfill  
Pre-Employment Physical  
Real Property Transaction  
Recreation Refunds  
Reimbursement To Police Personnel For Property Loss/Damage  
Subscriptions/Publications/Memberships  
Training/Instruction/Tuition Reimbursement

SOURCE: Purchasing Guide

Overall, we found that controls are in place to assure that check requisitions are appropriately used and to assure that they are properly processed. Accounts Payable procedures contained adequate guidance to determine whether use of a check requisition was appropriate for the given transaction. Additionally, the sample check requisition transactions we reviewed indicated that signature levels were properly verified, taxes were accurately computed when applicable and discounts were properly applied when available.

However, we found instances of check requisitions being submitted to Accounts Payable for processing when payment had already been made for the related expenditure. Although in these instances the duplicate check requisitions were identified by Accounts Payable staff, and therefore not paid, there is no procedural guarantee that duplicate submittals will be found at this point of the process. We believe that the potential for duplicate submittal of check requisitions exists because tracking procedures at the program level are not adequately developed.

**Additional Guidance Is  
Needed For Staff To  
Adequately Track Check  
Requisition Submittals**

Although check requisitions are being properly processed by Accounts Payable, adequate insight is typically not available to Accounts Payable staff to make a determination as to whether a check requisition is a duplicate request for payment already made. Because of the nature of the check requisition, this insight is usually only available at the program level. Therefore, procedures to make the determination as to whether a check requisition is appropriate for payment (i.e. whether payment for the goods or services has been made yet) are best applied at the program level.

Unlike POs, check requisitions are not always accompanied with supporting documentation such as the vendor invoice. With POs, the key to identifying whether a duplicate request for payment is being made is the identification of duplicate invoice numbers for the same vendor. This identification is a computer edit which is run as Accounts Payable staff key the invoice information into MSA. This edit is not always effective when check requisitions are involved because oftentimes there is no related vendor invoice. Other than the edit check, Accounts Payable staff have no way to identify duplicate check requisitions.

A check requisition is usually generated at the program level at the time staff believe payment should be made to the vendor. This could be at the time services or goods are requested or upon the receipt of a vendor invoice. Program staff have access to guidance which delineates appropriate use of check requisitions. However, guidance is not available which provides insight into how to properly track the services or goods related to check requisitions already forwarded to Accounts Payable for processing. The lack of such guidance increases the risk for duplicate payment to be made by the City on check requisitions.

We believe the best interest of the City would be served if guidance regarding the agreed upon best method to track check requisitions was made available to the programs. Such guidance should address facilitating the identification of goods and/or services for which payment has already been made. We believe that this would minimize the risk of duplicate payments on check requisitions.

## **RECOMMENDATIONS**

The General Manager, Financial Services, should:

1. Assess the feasibility of using a single financial software system for processing POs, invoices and other related documents, to improve the efficiency and accuracy of the process.
2. Assess the feasibility of combining all invoice processing responsibilities into a single division within Financial Services to maximize the efficient use of staff resources, to expedite invoice processing, and to enhance internal controls.
3. Ensure that formal guidance is developed to establish the agreed-upon best method for staff at the program level to track check requisitions in order to minimize the risk of duplicate payment requests being forwarded for processing.

## **ABBREVIATED RESPONSES**

The General Manager, Financial Services, responded as follows:

1. Agree. Implementation of a fully interfaced/integrated DBS financial package is scheduled for July 1, 1996.
2. Agree. Although space and location constraints currently exist, the combining of staff and/or processes is being investigated as part of the DBS implementation.
3. Agree. Reporting and payment inquiry capability will be improved with DBS and a suggested check requisition tracking mechanism will be developed.

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# APPENDIX

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Accounts Payable Control Review  
City Auditor Report No. 9203

## A

### Objectives, Scope and Method

The objective of the accounts payable audit was to assess the adequacy of internal controls, related to the payables process, to ensure City assets are properly safeguarded, and to evaluate the potential for enhancing the efficiency and effectiveness of the overall process. Audit work was also performed to determine whether the City has made any duplicate payments to vendors for goods or services.

The scope of the audit was directed toward the activities and functions involved in the City's practice of processing payable transactions. This included an evaluation of the City's separate purchasing and accounting systems (i.e. SPOTS and MSA) used for processing payments, an assessment of the Invoice Control and Accounts Payable functions concerning procedures and internal controls over the payable process, and a review and sampling of invoices and check requisitions which were processed and paid from 1986 to 1994. This audit did not include a review of the buying and receiving functions performed within the Purchasing Department. Additionally, blanket order and re-stock transactions were not reviewed.

To gain an understanding of the overall payable process and related controls, we interviewed personnel assigned to Financial Services' Accounting Department and Purchasing Department. Personnel interviewed were responsible for either administering, managing, monitoring, tracking, posting or reporting payable transactions related to POs or check requisitions. Policies and procedures manuals were examined when available, as well as other written information and reports used by City staff while administering the payables process. Where available, we examined documentation related to the automated systems involved in the accounts payable process. We did so to gain an understanding of the process and of information used by City staff and/or available for use during our review. Upon initial information gathering, we generated flowcharts to assess our basic understanding of the accounts payable process.

Information was obtained from a judgmental sample of personnel from various departments, who were involved with forwarding and/or tracking check requisitions and/or PO related invoices for payment processing. Our purpose was to determine the extent of their involvement in the payment process and the extent to which the process facilitates their involvement and meets their needs.

We obtained an automated database of accounts payable transactions for the fiscal years 1986 through 1994, (a total of approximately 500,000 transactions). Section 8 payments were eliminated from the database because these payments were the specific focus of a separate audit. We obtained the database to perform audit work on selected samples to determine whether there were any indications that duplicate payments had been made (i.e. whether a vendor was paid twice or more for the same goods or services). We stratified the database to gain perspective on the volume of transactions at various dollar levels. The database was also sorted to identify transactions which were exact dollar matches to other transactions related to the same vendor. This was done to further investigate the potential of duplicated payments.

From the database of identical payments, we reviewed all transactions with amounts of \$100,000 or more. We found a total of 513 of these transactions. Further investigation allowed us to reduce this sample to 257 transactions. We found that 256 of the transactions really had no duplicate match because the transactions they were matched against had been reversed and therefore payment was never made on them. All of the remaining 257 transactions were traced to their related source documents in order to determine whether any duplicate payments had taken place. We found no indication that duplicate payments were made.

Excluding transactions over \$100,000, from the database of fiscal year 1993-1994 payment transactions, we found that 26,230 of them had at least one match, for dollar amount and vendor, to another transaction. Using randomly generated numbers we selected a sample of 328 of these transactions for further review. Internal auditing sampling methodology indicates that at 30 items the sample begins to adopt the characteristics of the population. Our objective was to review for duplicate payments, proper tax accrual, proper calculation of discounts when available, proper matching to invoices or other source documents, receipt of goods or services, and appropriate signature approval. To achieve this objective, we examined related source documents for goods and/or services ordered, referenced dates ordered and received, verified receipt of goods and/or services, verified PO authorization and approving signatures, verified terms as well as mathematical calculations and reviewed for duplicate vendor invoice numbers.

Another sample of transactions we reviewed were those related to a vendor that was judgementally selected from vendors paid in the 1993-1994 fiscal year. We wanted to examine all transactions for a single vendor for the period. There were a total of 38 transactions during the period for the selected vendor. Consideration was given to the number of transactions and related dollar amounts in making the selection. Again our primary focus was on identifying any duplicate payments. We also reviewed the transactions for processing timeliness by comparing dates that source documents were received at various locations within the City. Again source documents were reviewed to draw conclusions regarding the transactions.

We also reviewed a sample of 20 transactions that were forwarded for payment processing after they had already been properly paid during the 1993-1994 fiscal year. These transactions were initially identified by Accounts Payable edits that check for duplicate vendor invoice numbers. They were subsequently brought to our attention. We reviewed the transactions in order to gain an understanding of how these situations arise. For the sample transactions, we examined source documents related to the previously paid transaction and compared them to source documents related to the duplicate request for payment. We reviewed all SPOTS and MSA information related to the transactions. We reviewed receipt dates and evaluated any other factors that may have contributed to the duplicate submissions for payment.

Finally, we met with Financial Services' management to keep them abreast of our findings throughout the audit. We participated in meetings discussing the effect of our findings and proposed recommendations on the implementation of a newly acquired automated financial system.

# APPENDIX B

Accounts Payable Control Review  
City Auditor Report No. 9203

## Management Responses



May 25, 1995

To: Ramon Ramirez, Senior Auditor

From: *James A. Jenkins*  
James A. Jenkins, General Manager Financial Services

### Accounts Payable Control Review

#### Response to Auditor's Recommendations

**Recommendation:** The General Manager of Financial Services should assess the feasibility of using a single financial software system for processing purchase orders, invoices and other related documents to improve the efficiency and accuracy of the process.

**Management Response:** We agree with the recommendation. The Accounting and Budget and Purchasing Divisions of Financial Services, along with the department General Manager are in the process of implementing a fully interfaced/integrated Dun & Bradstreet (DBS) financial package. The complete package includes General Ledger, Purchasing, Accounts Payable, Encumbrance Control, and Fixed Assets and is scheduled for implementation on July 1, 1996. The modules in this suite of products update each other with necessary information on-line and real-time to alleviate problems caused by our current separate systems.

With the use of our new integrated systems we will be able to improve the effectiveness and efficiency of the Accounts Payable process. The DBS system will eliminate duplicate steps such as invoice entry and the need to reconcile the Encumbrance Control and Purchasing systems. The integrated system will help improve process efficiency for the Accounting and Purchasing staffs as well as for the rest of the City. Purchase Order information will be the same in both systems making it easier for staff to track the status of their purchases. The elimination of dual systems will help alleviate confusion and errors since all information concerning a purchase will be the same whether you are looking at the Purchase Order, the vendor payment, or the encumbrance. There will also be less maintenance required with one system than with different kinds of systems. The DBS system has one vendor file for both purchasing and accounts payable. This will eliminate the duplication of vendor files that we currently have.



**Recommendation:** The General Manager of Financial Systems should assess the feasibility of combining all invoice processing responsibilities into a single division within Financial Services to maximize the efficient use of staff resources, to expedite invoice processing and to enhance internal controls.

**Management Response:** We agree that combining all invoice processes into a single division is the most efficient way to process invoices. Because of existing space and location constraints of the two divisions, it is not currently feasible for them to be combined. In conjunction with the DBS implementation process Accounts Payable and Purchasing staff are working together to streamline our existing process. They have been meeting regularly to eliminate non-productive work and to look for ways to speed the flow of invoices between the two areas. They have also done some crosstraining to provide a better understanding of each others' work and allow the opportunity to help each other during peak workloads. With the DBS system there will be no duplication of invoice entry. Invoices will only be entered through the Accounts Payable system and will be immediately available for inquiry by anyone in the City. The actual combining of staff and/or processes is still being investigated as a part of the implementation process. We are not in a position to speculate on what the invoice processing organization will look like by the time we implement the system, but will consider the auditors recommendations in our work design.

**The General Manager of Financial Services should ensure that formal guidance is developed to establish the agreed upon best method for staff at the program level to track check requisitions in order to minimize the risk of duplicate payment requests being forwarded for processing.**

**Management Response:** We agree with the recommendation. DBS systems will have better reporting and payment inquiry capability than is currently available making tracking check requisitions easier for City staff. In partnership with the departmental financial conversion liaisons we will develop a suggested tracking mechanism for check requisitions to minimize the risk of duplicate payments.

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<u>Issue Date</u>	<u>Report Number</u>	<u>Report Title</u>
<b>1995</b>		
June	9403	Section 8 Housing Assistance Program Operations
<b>1994</b>		
November	9101	Capital Improvement Program Control Review
January	8802C	Scottsdale Water Service Company Contract Compliance
April	9004.1	Follow-up Of CDBG Internal Control Weaknesses
<b>1993</b>		
September	9103	WestWorld Contract Compliance
August	9201	City Clerk Operational Audit
May	8903.1	Scottsdale Cultural Council Contract Administration Progress
<b>1992</b>		
December	8902.1A	City Parcel Database
December	9010B	Dial In Security System Project Evaluation
October	8902.1 and 9002	Progress Since 1989 In Property Tax Management, City of Scottsdale, Maricopa County

<u>Issue Date</u>	<u>Report Number</u>	<u>Report Title</u>
<b>1991</b>		
December	9102	Tournament Players Club Contract Compliance and Related Issues
October	8802B	Utility Bill and Tariff Costs, Scottsdale Water Service Company, City of Scottsdale
September	9001	Attestation Audit on Urban Mass Transportation Administration Reports and Related Scottsdale Connection
April	9004	Investigation of Internal Control Weaknesses Involving Community Development Block Grant Funds and Other City Resources
April	8903	Scottsdale Cultural Council Contract Performance and Compliance
November	8904	Preliminary Survey Covering City of Scottsdale Automated Systems
September	8902	Property Tax Management Practices City of Scottsdale/Maricopa County
April	8901	Attestation Audit on Inventory Moved During Police Property and Evidence Room Relocation in February 1989
April	8801	Perquisite Management Practices